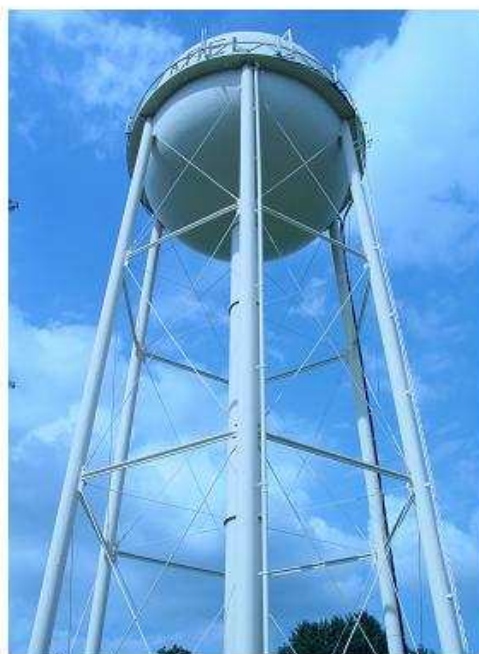


# Drinking Water State Revolving Fund



**FY 2008 Intended Use Plan**  
**Iowa Department of Natural Resources**  
**Iowa Finance Authority**  
Adopted June 5, 2007  
Amended September 4, 2007; Amended December 4, 2007

## Table of Contents

<b>I. INTRODUCTION .....</b>	<b>1</b>
What is the Drinking Water State Revolving Fund? .....	1
How is the Iowa DWSRF Funded? .....	2
Who Uses the Iowa DWSRF? .....	2
How is the Iowa DWSRF Being Improved? .....	2
<b>II. SFY 2008 PLAN OF ACTION .....</b>	<b>4</b>
DWSRF Goals and Objectives .....	4
Current and Projected Financial Capacity of the DWSRF .....	5
Financial Management Strategies .....	6
SFY 2008 Project Priority List.....	7
<b>III. INFORMATION ON THE DWSRF ACTIVITIES TO BE SUPPORTED .....</b>	<b>8</b>
Allocation of Funds.....	8
Sources and Uses of Available DWSRF Funds.....	8
DWSRF Loan Policies.....	8
Loan Interest Rate .....	8
Loan Fees .....	9
Maximum Financing .....	9
Project Readiness and Available Funds .....	8
Funding Limitations .....	9
Disadvantaged Communities.....	9
Intended Use of Set-Asides.....	10
DWSRF Program Administration Set-Aside.....	11
Small System Technical Assistance Set-Aside.....	11
State Program Support Set-Aside .....	12
Other Authorized Activities Set-Aside .....	12
Plan for Efficient and Timely Use of SRF Funds .....	14
Transfers .....	14
<b>IV. ASSURANCES AND SPECIFIC PROPOSALS .....</b>	<b>14</b>
<b>V. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS .....</b>	<b>14</b>
Priority of Communities and Financial Assistance Needed.....	14
Allocation of Funds among Projects .....	14
<b>VI. METHOD OF AMENDMENT OF THE INTENDED USE PLAN.....</b>	<b>15</b>
<b>VII. PUBLIC REVIEW AND COMMENT.....</b>	<b>15</b>

## ATTACHMENTS

Chart 1	SFY 2008 Intended Use Plan Projects—Specific Information
Chart 2	SFY 2008 Intended Use Plan Contingency Projects— Specific Information
Appendix A	Estimated DWSRF Fund Sources and Uses
Appendix B	Procedures to Determine Project Priority List



## Drinking Water State Revolving Fund

# INTENDED USE PLAN

State Fiscal Year 2008  
July 1, 2007 – June 30, 2008

**Iowa Department of Natural Resources**  
**Iowa Finance Authority**

## I. INTRODUCTION

The Drinking Water State Revolving Fund (DWSRF) program in Iowa was launched in 1998. Since then, the loan program has played an important role in financing water system improvements. One hundred seventy loans totaling more than \$223 million have gone to public water supplies in Iowa.

The DWSRF is also an important source of funding for the management of Iowa's public water supply program. The DWSRF allows up to 31% of federal capitalization grants to be set-aside for other activities supporting the goals of the Safe Drinking Water Act.

In the 10 years since the program's inception, the DWSRF has grown, expanded, and evolved to meet the needs of Iowa's drinking water systems, to improve the quality of drinking water, and to better protect public health. At this 10-year milestone, this Intended Use Plan will examine progress to date and outline goals and objectives for the coming fiscal year.

### ***What is the Drinking Water State Revolving Fund?***

The DWSRF provides low-interest loans to public water supply systems to install, upgrade, or replace infrastructure to ensure the provision of safe drinking water. DWSRF set-asides are used for technical assistance to small systems, state water program management, DWSRF administration, and capacity development and source water protection staffing, planning, and loans.

Under Iowa law and an agreement with the U.S. Environmental Protection Agency (EPA), the Iowa DWSRF is jointly administered by the Iowa Department of Natural Resources (DNR) and the Iowa Finance Authority (IFA). The plan for using DWSRF funds is outlined in an annual Intended Use Plan (IUP), which is updated quarterly as needed. The IUP and amendments are submitted for approval to the Iowa Environmental Protection Commission (EPC) after opportunity for public review and comment.

### ***How is the Iowa DWSRF Funded?***

The primary sources of funds for the DWSRF include the following:

- Annual capitalization grants, based on a federal formula, from EPA
- Bonds issued to provide the required state match, which is 20% of the capitalization grants
- Bonds issued to leverage the capitalization grants, if needed
- Loan repayments and interest earned
- Loan fees

The DWSRF has experienced continuing high demand, in excess of available funds. In previous years, transfers from the Clean Water State Revolving Fund (CWSRF) have been made to meet loan demand in the DWSRF. Unused funds from CWSRF may be invested in DWSRF during State Fiscal Year (SFY) 2008 on a temporary basis, with leveraging planned as needed.

### ***Who Uses the Iowa DWSRF?***

The primary borrowers from the DWSRF are municipalities. Other public water supplies, including, rural water associations, private water companies, and governmental entities responsible for public water systems are also eligible to borrow from the DWSRF. The DWSRF offers three types of financing:

- Planning and design loans (P&D);
- Construction loans; and
- Source water protection loans.

During SFY 2007, loans ranged from \$71,000 for P&D to \$6 million for a major system upgrade.

### ***How is the Iowa DWSRF Being Improved?***

Several loan program enhancements were made during SFY 2007, including extended financing terms for disadvantaged communities, environmental review services, a new water supply construction manual, a project tracking database, and enhanced customer education and marketing.

**Extended Financing Terms.** The DNR and IFA worked together to allow communities that meet disadvantaged criteria to apply for loan terms of up to 30 years. The DWSRF uses the same criteria as the Community Development Block Grant (CDBG) program, since at least 50% of DWSRF projects are co-funded with CDBG. The actual loan term is established by calculating the average useful life of the project. While total interest paid is higher, the extended term option allows a community to lower the annual payments.

The following scenario shows the approximate differences between 20 and 30 year loan terms on a \$1 million project in a community with 200 connections:

Loan Term	Total Interest Paid	Annual Payment	Annual User Charge for Debt Service
20 years	\$344,000	\$70,000	\$350
30 years	\$538,000	\$54,000	\$268

**Environmental Review.** Each DWSRF project must undergo a process of determining its impact to environmental and cultural resources. Previously, conducting this process was the responsibility of the applicants and their consultants. A Kaizen (process improvement) event was held in January 2006 involving program stakeholders to explore how to make the environmental and historical review process less of a barrier to using the SRF program. The DNR hired an environmental

review services coordinator and rolled out services through a series of five workshops in October and November 2006. Details of the services are outlined in the SFY 2008 program plan section below.

**Water Supply Manual.** DNR prepared a new manual for water supply construction projects, listing in step-by-step detail the process of obtaining a construction permit. The manual incorporates the required steps for participating in the DWSRF program as well. Also included are forms, checklists, and links to other information. The manual is posted on the web at [www.iowasrf.com](http://www.iowasrf.com).

**Project Tracking Database.** During SFY 2007, a new project tracking database was installed. Named W/WISARD (Water/Wastewater Information System and Records Database), the system is web-based and allows DNR project managers, program supervisors, field office staff, and others to keep track of SRF project milestones and program measures. The database system rolls in and replaces several other database and spreadsheet tracking systems.

**Customer Education.** DNR and IFA worked during SFY 2007 to educate customers and potential program users about the benefits of using DWSRF. Among the methods used were:

- Maintaining the [www.iowasrf.com](http://www.iowasrf.com) web site to provide a one-stop shop for program users;
- Putting loan application materials on-line through the [www.iowafinanceauthority.gov](http://www.iowafinanceauthority.gov) web site;
- Updating a loan calculator to show the savings provided through DWSRF loans versus other financing options;
- Participating in five environmental review services workshops to discuss SRF loan processes and benefits;
- Making presentations and distributing materials at meetings, conferences, workshops, and other events.

**Source Water Protection.** During SFY 2007, a source water protection (SWP) coordinator was hired in the DNR's Watershed Improvement section. A technical advisory committee (TAC) was formed to provide guidance for improving SWP efforts. With that guidance, DNR staff:

- Developed an SWP database to connect staff that work on SWP, including those in Watershed Improvement, Water Supply, Geological Survey, and Field Services;
- Initiated the 9-Step Planning Process for SWP plans;
- Developed a prioritization methodology, resulting in the creation of a top-40 priority list of community water supplies at greatest risk;
- Coordinated with other agencies to identify best management practices available for SWP; and
- Worked with contractors to refine criteria for preparing SWP plans, including such elements as GIS mapping updates for 2, 5, and 10 year capture zones.

## **II. SFY 2008 PLAN OF ACTION**

The SFY 2008 Intended Use Plan will continue to be amended quarterly, with projects added and funding amounts adjusted. While the plan of action outlined in this SFY 2008 IUP may be amended in subsequent quarters, it is intended to lay out the general direction and goals of the DWSRF for this fiscal year. The plan is based on anticipated use of new and revolved monies in the DWSRF for assisting drinking water systems in financing infrastructure improvement projects and maintaining compliance with Safe Drinking Water Act (the Act) requirements.

The SFY 2008 Plan of Action covers the following areas:

- DWSRF goals and objectives;
- Current and projected financial capacity of the DWSRF;
- Financial management strategies; and
- SFY 2008 project priority list.

### ***DWSRF Goals and Objectives***

The primary long-term goal of the Iowa DWSRF is to support the protection of public health through a perpetual program of financial assistance for the purposes of constructing facilities to properly and adequately treat drinking water, protecting source water for drinking water systems, and ensuring the long-term viability of existing and proposed water systems.

The SFY 2008 short-term goals and objectives are as follows:

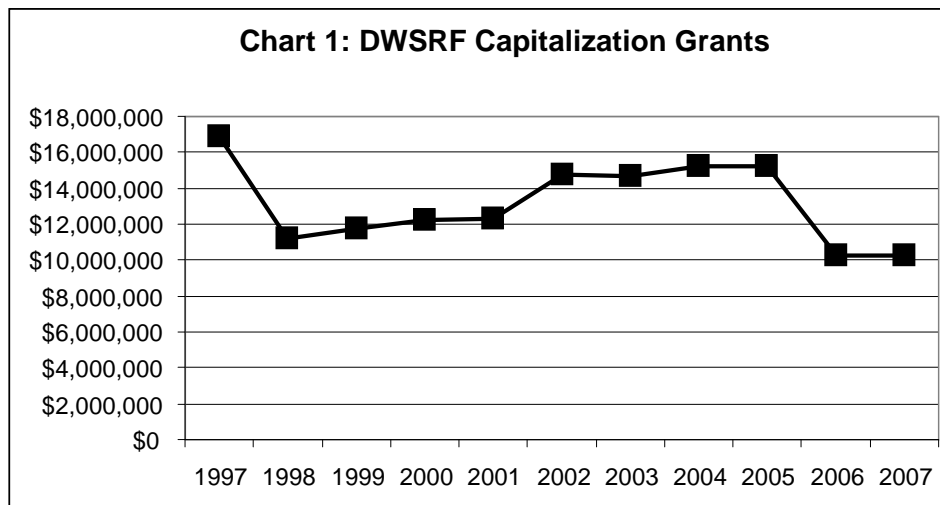
- **Goal:** Ensure that borrowers are able to provide safe drinking water at a reasonable cost for the foreseeable future. **Objectives:** During SFY 2008 DNR and IFA will continue to offer extended term financing to disadvantaged communities and will coordinate efforts with other funders such as the Community Development Block Grant program. IFA and DNR will continue to educate and inform public water supplies, engineering consultants, and financial advisors on the financing savings available by using the DWSRF. DNR will continue to implement its capacity development strategy, and in partnership with IFA, will continue to offer extended term financing.
- **Goal:** Provide financial assistance that is lower in cost than private financing options while assuring the perpetual nature of the program. **Objective:** During SFY 2008, IFA will continue to apply criteria in program rules to set interest rates in the IUP, including cost of funds to the SRF, availability of other SRF funds, prevailing market interest rates of comparable non-SRF loans, and long-term SRF viability.
- **Goal:** Apply program requirements that are simple and understandable and do not add unnecessary burdens to applicants or recipients. **Objectives:** During SFY 2008, DNR will continue to provide environmental review services, conduct project meetings, provide technical assistance for meeting federal requirements, and update its water supply manual and web-site as needed. IFA will continue to offer on-line loan applications.
- **Goal:** Commit loan funds to fully fund as many recipients as possible in accordance with the state priority ranking system, the IUP, staff resources, and available funding. **Objective:** During SFY 2008, DNR and IFA will continue to prepare quarterly updates to the IUP to add projects and update program financial information.
- **Goal:** Manage the DWSRF to maximize its use and impact through sound financial management. **Objective:** During SFY 2008 IFA will continue to conduct financial analysis and develop innovative approaches to financial management. This may include investment of Clean Water State Revolving Fund uncommitted funds into DWSRF on a short-term basis to meet loan demand.
- **Goal:** Maintain mechanisms for funding the on-going administration of the program if federal funding is eliminated or reduced. **Objectives:** During SFY 2008 DNR and IFA will

continue to collect initiation and servicing fees on DWSRF loans for deposit to administrative accounts. IFA and DNR will develop short and long-term plans for administrative budgets.

### ***Current and Projected Financial Capacity of the DWSRF***

Appendix A, the Estimated Sources and Uses table, is a snapshot in time and will be updated quarterly throughout SFY 2008. The information below lays out a longer-term picture of the financial capacity of the DWSRF.

**Capitalization Grants.** Each year, the DNR receives a capitalization grant through the U.S. EPA. Chart 1 below shows the trend in capitalization grants through the current year available. As shown, Iowa's allocation dropped sharply in 2006. State allocations are based on two factors: A nation-wide needs survey, from which EPA creates an allocation formula, and yearly congressional appropriations. The EPA's formula for allocations will stay the same through federal fiscal year 2009. A new needs survey is currently underway, and will be used to determine the DWSRF formula starting in 2010.



**State Match.** For each capitalization grant, the State of Iowa must provide a 20% match. Iowa is one of 16 states that use bonds repaid by the DWSRF to provide the matching funds. Most states use state appropriations or general obligation bonds repaid by state general funds to provide their match.

**Leveraged Bonds.** Iowa issued bonds three times between 1999 and 2003 for a total of \$93 million. Additional leveraging through the issuance of bonds will only be done if deemed necessary.

**Income from Loan Fees.** A 1% origination fee is charged on each DWSRF construction and source water protection loan, plus servicing fees of 0.25% annually on loan principal. The primary allowed use of fee income is DWSRF program administration. There is \$4,226,620 in the loan fee account. This account will be used when the other source of administrative funds, the DWSRF administrative set-aside, cannot fully cover program expenses. For SFY 2008, \$1.4 million is budgeted for DWSRF administration. The 4% administration set-aside brings in approximately \$400,000 per year.

### ***Financial Management Strategies***

This IUP is based on federal capitalization grant funds received and matched up to and including the FFY 2005 allocation. DNR has received the FFY 2006 grant, but has not yet bonded for the match, and will apply for the FFY 2007 grant when the money is appropriated by Congress. These capitalization grants will be matched with state bonds during SFY 2008.

With EPA approval, IFA proposes to temporarily invest CWSRF monies in the DWSRF in late SFY 2007 or early SFY 2008. The investment will be short-term in nature. The investment plus interest will be repaid within two years. Both the CWSRF and the DWSRF charge 3% interest on their loans. The investment from the CWSRF will earn the same rate as it would have earned had it been used for wastewater loans. An investment contract formally detailing the terms between the two programs will be executed.

Currently, the CWSRF has a balance of past loan repayments that are not pledged to any outstanding bond issues. By using these funds to invest, there are no concerns with any outstanding bond documents. The maximum amount of investment from the CWSRF to the DWSRF will be \$25 million. This investment will provide a temporary source of capital to fund DWSRF loans until a bond issue can be completed in SFY 2008.

### ***SFY 2008 Project Priority List***

The management of the DWSRF program, including development of a project priority list for financing assistance, was developed according to Part 567 of the Iowa Administrative Code (IAC), Chapter 44. This amended IUP indicates the intent to provide funds to projects ranked in priority order according to scoring criteria contained in Chapter 44 of the IAC. Charts 1 and 2 constitute the State's project priority list.

In the event that projects identified for funding in the IUP do not attain readiness for a loan commitment by projected dates, these delayed projects may be bypassed. Other projects may be added to Chart 1 or Chart 2 to be funded based on the State's implementation rules for the DWSRF program (567 IAC 44). Applications in excess of available DWSRF assistance or unable to enter binding commitments within one year may be placed on the Contingency List (Chart 2) according to priority.

Projects will be funded as ranked on the project priority list. Adjustment to the list of fundable projects will be made, if necessary, to assure that at least 15% of the project funds are available to systems serving fewer than 10,000 persons as specified in Section 1452(a) (2) of the Act. Financing may be provided for up to 100% of project costs if the costs are eligible for funding based on engineering, environmental, and financial review and project readiness to proceed as described above.

The following categories of projects will be included for funding during SFY 2008:

**Unfunded Prior Years' Projects.** All projects from prior years that have not entered into a binding commitment are included in this IUP. Projects identified in this IUP for assistance in previous years are shown in Chart 1 Parts 1 and 2.

**Segments of Previously Funded Projects.** State rules provide that subsequent segments of a project which has previously received funding priority or assistance be placed on the project priority list with the original project score.

**New Projects.** New applications for assistance during SFY 2008 will be added to the project priority list. Applications will be accepted on a continuous basis and quarterly updates completed as needed.

Only projects on Chart 1 are considered fundable and projected to receive financing in FY 2008. The priority rankings for the FY 2008 projects are shown in Chart 1, Part 4.

**Contingency Projects.** Projects on the contingency list have indicated they do not expect to enter into binding commitments during FY 2008. These projects may be placed on the project priority list in the FY 2008 IUP if their schedules indicate they will require funding during FY 2008.

**Supplemental Financing.** Supplemental financing for projects listed in previously approved IUPs are added to the IUP as they are requested unless the additional funds will be used for improvements that would significantly change the scope of the project. Changes requiring additional environmental review are considered significant. Supplemental loans will not be provided for changes that would lower the original score of the project to a point where the application is no longer competitive or is ineligible for funding.

**Planning and Design Loans.** Requests for planning and design loans are listed on Chart 1 but have not been assigned priority points or project numbers. The intent is to provide loan funds for planning and design to these systems at 0% interest for up to a three-year period. Following the three-year period, the system could incorporate the planning and design loan into permanent financing or pay off the loan.

**Source Water Protection Loans.** No requests have been received for SWP loans. If applications are received during SFY 2008, they will be reviewed and approved for listing on the project priority list. Borrower must have an approved SWP plan and the proposed project must be a component of the SWP plan.

### **III. INFORMATION ON THE DWSRF ACTIVITIES TO BE SUPPORTED**

#### ***Allocation of Funds***

Allocation of funds to eligible projects is based on a three-step process:

1. The amount of financial assistance needed for each application is estimated;
2. The sources and spending limits for all DWSRF funds are identified; and
3. The DWSRF funds are allocated among the projects, consistent with the financial assistance needed.

Information pertinent to each DWSRF project is contained in Chart 1.

#### ***Sources and Uses of Available DWSRF Funds***

Appendix A to this IUP illustrates the potential sources and uses of funds in the DWSRF for SFY 2008. The project needs total in Chart 1 reflects all unfunded needs. All pending requests and program administration needs can be met in SFY 2008.

A decision to leverage will be based on current loan demand, anticipated loan needs, and the benefit to the SRF fund.

### ***DWSRF Loan Policies***

**Loan Interest Rate.** Interest rates are established by taking into account factors including, but not limited to, the following:

- Interest rate cost of funds to the SRF;
- Availability of other SRF funds;
- Prevailing market interest rates of comparable non-SRF loans; and
- Long-term SRF viability.

Using those criteria, IFA has determined that the interest rate for DWSRF construction loans will be 3%. Interest rates for DWSRF planning and design loans will be 0% for up to three years. Interest rates for source water protection loans, which come out of the Other Authorized Uses set-aside, will be 0% for up to 20 years.

**Loan Fees.** A 1% origination fee will be charged on the full loan amount for DWSRF construction and source water protection loans. No origination fees will be charged on planning and design loans. A .25% servicing fee will be charged on construction and source water protection loans.

**Maximum Financing.** There is no maximum financing amount.

**Project Readiness.** Applicants cannot be offered assistance until they meet program requirements. Based on the environmental reviews that have been conducted on funded projects to date, it is not anticipated that any of these projects will need to undergo the development of an Environmental Impact Statement (EIS).

**Funding Limitations.** Pending projects identified in this IUP exceed the funds currently available in the DWSRF program. As a result, if all the recipients listed in Chart 1, Parts 1, 2, 3, and 4 were to enter into binding commitments and require full disbursement of funds during FY 2008, the DWSRF would provide additional funds through leveraging.

DWSRF will only leverage if it is deemed necessary by consultations with EPA. If necessary, lowest priority projects on Chart 1 could be transferred to the contingency list, Chart 2.

**Disadvantaged Communities.** The Safe Drinking Water Act Amendments of 1996 allow states to provide an extended term for a loan to a disadvantaged community as long as the extended term does not terminate more than 30 years after project completion and the loan term does not exceed the expected design life of the project. The Act defines a disadvantaged community as the service area of a public water system that meets affordability criteria established after public review and comment. DNR and IFA have jointly decided to establish disadvantaged community criteria as part of the IUP process to allow for public review and comment.

Community public water systems serving populations that contain a majority (51 percent) of Low to Moderate Income (LMI) persons will be considered disadvantaged for the purpose of the DWSRF loan program. Low to moderate income is defined as 80 percent of the median household income, calculated using the most recent federal census or income survey data. Privately owned community public water systems will be considered eligible for disadvantaged community status if

an income survey indicates that the service area meets the LMI criteria. Rural water systems will be considered eligible for disadvantaged community status if an income survey indicates that the area benefiting from the improvements meets the LMI criteria. Income surveys must be done according to the protocol specified by the Community Development Block Grant program.

Loans to disadvantaged communities are limited to public water supply infrastructure improvements. Projects eligible for funding from set-asides, such as source water protection projects, are not eligible in accordance with federal program requirements.

Only those portions of a project that have a design life or life cycle of at least 30 years are eligible for repayment schedules exceeding 20 years. The department will use the table of estimated useful lives from EPA's publication 816-R-03-016 to determine the length of the loan for eligible expenses. The consulting engineer for the project will be required to separate and itemize costs so that a weighted maturity may be calculated for loan repayment. The list of itemized costs and expected useful lives will be required prior to signing of the loan agreement.

Disadvantaged community assistance will not exceed 60 percent of the total dollars made available for infrastructure loans in each annual intended use plan. If more than 60 percent of the total infrastructure loan dollars are requested for disadvantaged community assistance, applications will be funded based on their priority points on a first come, first served basis. If a project is not able to enter into a binding commitment in a timely manner, it may be replaced with the next disadvantaged community project that is ready to proceed.

Using a financial model developed for the state, it is predicted that the impact of these loans over the next 10 years will be as follows: A minimum of \$40.2 million would be available per year for loans assuming a \$10 million capitalization grant until 2010 and then no further capitalization grants. Should capitalization grants continue beyond 2010, a minimum of \$46 million would be available on an annual basis for loans.

### ***Intended Use of Set-Asides***

States are allowed to take or reserve up to 31% of each federal capitalization grant for a number of activities that enhance the technical, financial, and managerial capacity of public water systems and protect sources of drinking water. There are four different set-asides, including:

- Small System Technical Assistance (2% of capitalization grants)
- DWSRF Administration (4%)
- State Program Management (10%), requires a 1:1 match with state funds
- Other Authorized Uses (15%, with no more than 10% to any one activity)

During the early years of the DWSRF program, Iowa focused on building up the loan funds, and therefore did not fully utilize the set-aside funds. In addition, the State Program Management set-aside requires a dollar for dollar match which was not initially available.

DNR has two options for addressing the amounts available each year in set-asides. Set-aside funds may be reserved for future use, in which case they would be deducted from a future capitalization grant when they are ready to be taken. Funds that are taken from an available capitalization grant must be applied to planned work efforts approved by EPA.

DNR is now proposing to more fully use the set-asides due to budget needs for programs and efforts required by EPA and critical for ensuring public health. Starting in SFY 2005, funding for

drinking water program staff was moved from other EPA grants to the DWSRF set-asides in order to free up funds for other environmental programs. The budgeting strategy has been to draw down the reserve capacity of the set-asides while also trying to extend the timeframe in which the DWSRF set-aside reserves would eventually be exhausted. Once the reserved amounts are expended, the amounts available for each set-aside will be limited to the percentage allowed out of each capitalization grant. That will be inadequate to meet projected budget needs for most of the program areas and other funding sources will be needed in future years. The chart below shows the years in which additional funding will be needed and the potential sources:

State Fiscal Year	DWSRF Admin	State Program Management	Small Systems Technical Assistance	Other Authorized Uses
2009	4% set-aside to be supplemented from DWSRF program income from loan fees			
2010		Portion of 1:1 required state match from DWSRF non-program income		
2011				
2012			Source of funding to be determined	
2013				Source to be determined

The Other Authorized Uses set-aside cannot be reserved. Historically, it had been designated for the source water protection (SWP) program. For example, two million dollars was taken under this set-aside in previous years with the intent of making it available for source water protection (SWP) loans. Approximately \$1.1 million of that amount will remain after some of the funds are used for drinking water program and source water protection staffing.

**DWSRF Program Administration Set-Aside.** Iowa intends to take this set-aside to pay the costs of administering the State Revolving Fund loan program in SFY 2008. Among the uses for the set-aside are:

- Portfolio management, debt issuance, and financial, management, and legal consulting fees;
- Loan underwriting;
- Project review and prioritization;
- Project management;
- Environmental review services;
- Technical assistance to borrowers;
- Database development and implementation; and
- Program marketing and coordination.

This set-aside was taken in each of the fiscal years between 1999 and 2003, but was not taken in 2004 and 2005. It is anticipated that some reserved capacity from past years will also be taken in SFY 2008. Chart 1, Part 5 shows set-aside amounts and the balance of unspent funds for each year. Typically, the annual budgets for program administration have been less than the 4% allowed by the DWSRF for administrative costs. Increases in program costs and reductions in federal capitalization grants, however, will require the use of the reserve capacity from prior years.

Workplans for SFY 2008 show a demand for approximately \$1.4 million. Unused commitments are reserved for use in future years as necessary.

**Small System Technical Assistance Set-Aside.** Iowa intends to use DWSRF funds equivalent to 2% of the federal capitalization grant funds to provide technical assistance to public water supplies serving populations of less than 10,000.

Funds from this set-aside will be used this year to provide technical assistance through the issuance of operation permits, monitoring reminders, and assistance for consumer confidence reporting for public water systems serving populations of less than 10,000.

Chart 1, Part 6 shows SFY 2001-2006 small systems technical set-aside amounts and the balance of unspent funds for each year. The annual budgets for technical assistance to small systems have been less than the 2% allowed for this program because state budget constraints for several years forced the Department to retain these funds in the event that they had to be used to fund the technical assistance activities of Department staff.

Workplans for SFY 2008 show a demand for approximately \$276,200. Unused commitments are reserved for use in future years for DNR staff and other purposes as necessary.

**State Program Support Set-Aside.** The primary uses of this set-aside are to assist with the administration of the Public Water Supply Supervision program, to review engineering documents for non-DWSRF construction projects, to determine viability for new systems, and to provide operating permits for public water supplies serving at least 10,000 persons.

Other uses planned for SFY 2008 include:

- Completing sanitary surveys with viability assessments and to provide education and technical assistance to medium and large-sized public water supplies;
- Providing geological services such as hydrogeological analyses;
- Upgrading the SDWIS database and other information technology updates; and
- Contracts with counties to complete sanitary surveys for transient non-community systems.

The DNR set aside \$175,000 in SFY 2005 to investigate the source(s) of high bacterial counts along the Des Moines and Raccoon Rivers that act as source water for Des Moines Water Works. Information gained during the study will be used to identify source water protection strategies available to Des Moines Water Works as allowed by 1452(g)(2)(B). This project started in SFY 2007 and will be completed this year.

The set-asides and balance of unspent funds are shown in Chart 1, Part 7. Approximately \$2 million will be needed to fund state program activities during FY 08. Fifty percent of this amount will be funded from the capitalization grant and the remaining 50% will be funded from State sources. Unused commitments are reserved for use in future years for DNR staff and other purposes as needed.

**Other Authorized Activities Set-Aside.** The two primary uses of this set-aside in SFY 2008 will be capacity development and source water protection.

A total of \$1.15 million has been budgeted for efforts related to developing technical, managerial, and financial capacity for Iowa's public water supplies, including:

- Completion of sanitary surveys with viability assessments;
- Provision of technical assistance related to capacity development through the area wide optimization program (AWOP); and
- Updating and development of new viability assessment manuals.

For SFY 2008, \$500,000 has been budgeted for several source water protection (SWP) program implementation efforts. The SWP budget will be managed by the DNR Watershed Improvement section, which includes the SWP coordinator position. Among the activities planned are:

- Coordinate of SWP technical advisory committee efforts to define priority community water supplies;
- Continue to coordinate across program lines to combine efforts to protect drinking water sources;
- Work to develop SWP plans that are clear, concise, accurate, and accessible, including developing a consistent SWP format;
- Continue to refine SWP plans to more accurately address potential risks, provide solutions to drinking water risks, provide SWP funding sources, and develop resources to more accurately model groundwater flow;
- Develop a process or methodology to address populations with high nitrates in drinking water;
- Complete the Raccoon River Assessment as part of completing an effective SWP plan for Des Moines Water Works; and
- Track trends of Conservation Reserve Program acres versus row crop land in 2 year capture zones.

The balance of set-asides is shown in Chart 1, Part 8. Most of the remaining funds in this set-aside will be used for the above capacity development and SWP efforts in future budget years.

One of the uses of this set-aside is for SWP loans. Five percent of the capitalization grants have been taken for SWP loans that have not materialized. It is proposed in this IUP to set the interest rate for SWP loans at 0%. There will be approximately \$1.1 million remaining in this set-aside for source water protection loans or other SWP activities.

Work plans for SFY 2008 show a demand for funds from this set-aside in the amount of approximately \$1,615,900. Since the ability to fund this set-aside cannot be reserved from year to year, the department has taken the full 15% authorized by the last three capitalization grants.

#### ***Plan for Efficient and Timely Use of SRF Funds***

Applicants listed on Chart 1 have indicated their intent to utilize the DWSRF within SFY 2008. Applicants who have indicated their intent to utilize the DWSRF after SFY 2008 are listed on the contingency list to differentiate their project timelines and expected expenditure of funds.

DNR and IFA are committed to expending funds as quickly as possible within the constraints of project schedules.

### ***Transfers***

DNR and IFA transferred an amount equivalent to 33% of the 2004 and 2005 DWSRF capitalization grants (\$10 million) from the CWSRF to the DWSRF during FY2006. These funds will be used for infrastructure loans. DNR and IFA also reserve the right to transfer 33% of the 2006 and 2007 DWSRF capitalization grants between the CWSRF and the DWSRF after capitalization grants have been awarded.

## **IV. ASSURANCES AND SPECIFIC PROPOSALS**

Iowa will provide the necessary assurances and certifications according to the Operating Agreement between the State of Iowa and the U.S. EPA. Iowa's Operating Agreement was amended in April 2007.

## **V. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS**

The following approach was used to develop Iowa's proposed distribution of DWSRF funds: (1) analysis of the priority of communities applying and financial assistance needed; (2) identification of the sources and spending limits of available funds; (3) allocation of funds among projects; (4) development of a payment schedule which will provide for making timely binding commitments to the projects selected for DWSRF assistance; and (5) development of a disbursement schedule to pay the project costs as incurred.

### ***Priority of Communities and Financial Assistance Needed***

Iowa law provides only for loan assistance. The state's DWSRF rules identify the priority rating system used to establish priorities for financial assistance. Charts 1 and 2 become the state's Project Priority List.

Projects are considered eligible for financial assistance for all planning and project costs providing the project is on the project list of an approved Intended Use Plan.

### ***Allocation of Funds among Projects***

All projects listed in Charts 1 and 2 are eligible for assistance and may be funded from the DWSRF subject to available funds.

All projects scheduled for funding with Iowa's DWSRF will be reviewed for consistency with the Safe Drinking Water Act, as amended. Should a project fail to meet this review criterion, it may be bypassed or deleted from the funding list. Chart 2 provides for contingency projects, which may be considered for assistance as bypass projects according to state rules without formal amendment of this IUP. Projects may be added to Chart 2 in priority order as applications are received.

## **VI. METHOD OF AMENDMENT OF THE INTENDED USE PLAN**

The State will follow this IUP in administering DWSRF funds in FY 2008. The IUP must be subjected to public review and comment. Any revisions of the goals, policies and method of distribution of funds must be addressed by a revision of the IUP, including public participation. Minor adjustments in funding schedules, loan amounts, and use of bypass provisions including funding of projects on the contingency list are allowed by the procedures of this IUP and state rules for administration of the DWSRF without public notification. Adjustments to Chart 1 to utilize actual

funds available to the DWSRF for FY 2008 will be considered minor and only affected applicants will be notified. Public notice of amendments will be made if municipalities are added to or removed from Charts 1 or 2.

## **VII. PUBLIC REVIEW AND COMMENT**

The Department of Natural Resources held a public hearing on May 3, 2007 at 10:00 a.m. at the Water Supply office, 401 SW 7<sup>th</sup> Street in Des Moines, Iowa to allow input to Iowa's SFY 2008 Intended Use Plan and Project Priority List. The Department published notice of the hearing in the Des Moines Register on March 29, 2007 and notified stakeholders by e-mail. The public comment period closed on May 9, 2007. Written comments are addressed in a responsiveness summary.

This Intended Use Plan was approved by the Environmental Protection Commission on June 5, 2007.

The Department of Natural Resources will hold a public hearing on November 1, 2007 at 10:00 a.m. at the Water Supply office, 401 SW 7<sup>th</sup> Street in Des Moines, Iowa on the third quarter update to this IUP. The Department notified stakeholders via e-mail of the hearing on October 1, 2007 and published notice of the hearing in the Des Moines Register on October 3, 2007. The public comment period will close on November 8, 2007.

## Chart 1: FY 2008 Intended Use Plan Projects – Specific Information

Chart 1 Part 1: FY05 Drinking Water Projects

Project Name Community Served	Project Number	Assistance Amount (\$1,000)	Binding Commitment Date	Construction Start Date	Initiate Operation Date	Priority Points	Type of Project
Clarinda	FS-73-05-DWSRF-009	4,000	12/07	09/05	06/07	85	A, B, E
Welton	FS-23-05-DWSRF-033	830	12/07	11/07	09/08	80	A, B, E, G
Ellsworth	FS-40-05-DWSRF-011	2,722	12/07	10/07	05/09	75	A, B, C, E
Willow Stream Estate HOA	FS-82-05-DWSRF-010	217	12/07	06/06	12/07	45	B, E
Walnut	FS-78-05-DWSRF-023	996	12/07	09/07	09/08	40	B, C, E
Martelle	FS-52-05-DWSRF-024	760	10/07	10/07	06/08	40	B, C, E

Part 1 Total 9,525

A = Water Quality and Human Health Risk-Related Criteria, B = Infrastructure and Engineering-Related Improvement, C = Affordability Criteria, D = Special Category Improvements, E = Project Serves Population less than 10,000, F = Supplemental Loan for Previously Approved Project, G = Planning and Design Loan

Chart 1 Part 2: FY06 Drinking Water Projects

Project Name Community Served	Project Number	Assistance Amount (\$1,000)	Binding Commitment Date	Construction Start Date	Initiate Operation Date	Priority Points	Type of Project
DeSoto	FS-25-06-DWSRF-017	788	03/08	12/07	06/09	55	B, C, E
LeGrand	FS-64-06-DWSRF-013	470	01/08	10/07	10/08	40	B, C, E

Part 2 Total 1,258

Chart 1 Part 3: FY07 Drinking Water Projects

Project Name Community Served	Project Number	Assistance Amount (\$1,000)	Binding Commitment Date	Construction Start Date	Initiate Operation Date	Priority Points	Type of Project
Centerville	FS-04-07-DWSRF-006	300	12/07	06/07	06/08	40	B, C, E
Oskaloosa	FS-62-07-DWSRF-007	4,445	12/07	09/07	06/09	35	B
Lake Mills	FS-95-07-DWSRF-011	631	12/07	08/07	08/08	55	B, C, E
Montrose	FS-56-07-DWSRF-015	461	12/07	08/07	09/08	55	B, C, E
Nora Springs	FS-34-07-DWSRF-010	661	12/07	12/07	12/08	55	B, C, E
Sigourney	FS-54-07-DWSRF-009	750	02/08	02/08	08/08	55	B, C, E
West Burlington	FS-29-07-DWSRF-013	2,380	12/07	09/07	12/08	45	B, E
Mahaska Rural Water System, Inc.	FS-62-07-DWSRF-020	1,578	12/07	09/07	09/08	45	B, E
Hornick	FS-97-07-DWSRF-012	496	12/07	09/07	12/08	40	B, C, E
Denmark Water Co.	FS-56-07-DWSRF-014	606	03/08	04/08	01/09	40	B, C, E
Hartley	FS-71-07-DWSRF-019	1,894	12/07	09/07	12/08	35	B, C, E
Onawa	FS-67-07-DWSRF-016	475	12/07	09/07	03/09	35	B, C, E
Fort Madison	FS-56-07-DWSRF-017	11,778	03/08	12/07	10/09	25	B, C
Laurens	PD-DW-06-51	60				NA	G
Renwick	PD-DW-06-54	74				NA	G
Tiffin	PD-DW-06-62	220				NA	G

Part 3 Total 26,809

A = Water Quality and Human Health Risk-Related Criteria, B = Infrastructure and Engineering-Related Improvement, C = Affordability Criteria, D = Special Category Improvements, E = Project Serves Population less than 10,000, F = Supplemental Loan for Previously Approved Project, G = Planning and Design Loan

Chart 1 Part 4: FY08 Drinking Water Projects

Project Name Community Served	Project Number	Assistance Amount (\$1,000)	Binding Commitment Date	Construction Start Date	Initiate Operation Date	Priority Points	Type of Project
Keota	FS-54-08-DWSRF-003	384	01/08	11/07	12/07	70	A, B, E
Oakland	FS-78-08-DWSRF-008	453	06/08	03/08	09/08	70	A, B, E
Cedar Rapids	FS-57-08-DWSRF-005	30,300	11/07	08/07	07/09	60	A, B
Liscomb	FS-64-08-DWSRF-001	401	01/08	11/07	03/09	40	B, C, E
Eldora	FS-42-08-DWSRF-004	200	12/07	10/07	10/08	30	B, E
Dubuque	FS-31-08-DWSRF-002	1,037	12/07	09/07	09/08	20	B
Kelley	PD-DW-06-88	430				NA	G
Stanwood	FS-16-08-DWSRF-010	225	01/08	12/07	09/08	55	B, C, E
Central Water System	FS-30-08-DWSRF-011	15,625	06/08	06/08	12/09	45	B, E
Humboldt	FS-46-08-DWSRF-015	6,280	12/07	10/07	05/09	45	B, E
Princeton	FS-82-08-DWSRF-014	1,456	12/07	12/07	09/09	45	B, E
Rathbun Regional Water Association	FS-04-08-DWSRF-017	25,000	05/08	05/08	05/10	30	B
Mystic	FS-04-08-DWSRF-018	74	10/07	08/07	03/08	40	B, C, E
Albert City	FS-11-08-DWSRF-009	564	10/07	09/07	06/09	30	B, E
Maysville	FS-82-08-DWSRF-012	322	12/07	10/07	06/08	30	B, E
Rock Valley	FS-84-08-DWSRF-016	1,417	12/07	12/07	08/09	20	C, E
Alburnett	PD-DW-06-102	12				NA	G
Okoboji	FS-30-08-DWSRF-019	1,737	4/08	04/08	04/09	30	B, E
Council Bluffs	FS-78-08-DWSRF-024	29,846	06/08	06/08	06/10	45	B, C, G
Fox Creek Benefitted Water District	FS-77-08-DWSRF-021	705	11/07	11/07	03/09	45	B, E
Slater	FS-85-08-DWSRF-020	700	12/07	11/07	12/08	45	B, E
Spirit Lake	FS-30-08-DWSRF-023	4,318	04/08	04/08	10/09	45	B, E
Crawfordsville	FS-92-08-DWSRF-026	404	04/08	07/08	07/09	30	B, E
Lamoni	PD-DW-08-03	43					G
Shenandoah	PD-DW-08-08	45					G

Part 4 Total 121,978

Chart 1 Part 5: Program Administration Set-Aside

	Amount Set Aside (\$1,000)		Balance Remaining (\$1,000)
PGM-ADM (02)	591		0
PGM-ADM (03)	587		299
PGM-ADM (04) from reserved capacity	390		390
PGM-ADM (06)	410		410

Part 5 Total 1,978 1,099

Chart 1 Part 6: Small Systems Technical Assistance Set-Aside

	Amount Set Aside (\$1,000)		Balance Remaining (\$1,000)
PGM-SSTA (04)	305		29
PGM-SSTA (05)	304		304
PGM-SSTA (06)	205		205

Part 6 Total 814 538

Chart 1 Part 7: State Program Set-Aside

Project Name Community Served	Amount Set Aside (\$1,000)		Balance Remaining (\$1,000)
PGM-PWSS (05)	1,520		902

Part 7 Total 1,520 902

Chart 1 Part 8: Other Authorized Activities Set-Aside

Project Name Community Served	Amount Set Aside (\$1,000)		Balance Remaining (\$1,000)
PGM-OAU (04)	2,286		510
PGM-OAU (05)	2,281		2,281
PGM-OAU (06)	1,537		1,537

Part 8 Total 6,104 4,328

**Chart 2: FY 2007 Intended Use Plan Contingency Projects – Specific Information**

Project Name Community Served	Project Number	Assistance Amount (\$1,000)	Binding Commitment Date	Construction Start Date	Initiate Operation Date	Priority Points	Type of Project
Woodbine	FS-43-05-DWSRF-029	340	07/08	07/08	07/09	115	A, B, C, E
Hills	FS-52-08-DWSRF-022	2,995	07/08	05/08	12/09	95	A, B, E
Oakville	FS-58-07-DWSRF-018	353	07/08	09/08	09/09	55	B, C, E
Solon	FS-52-08-DWSRF-025	1,251	10/08	10/08	06/09	45	B, E
Early	FS-81-04-DWSRF-006	362	07/08	07/08	07/09	40	B, C, E
Lowden	FS-16-05-DWSRF-001	514	07/08	07/08	07/09	40	B, E

Part 1 Total            5,815

A = Water Quality and Human Health Risk-Related Criteria, B = Infrastructure and Engineering-Related Improvement, C = Affordability Criteria, D = Special Category Improvements, E = Project Serves Population less than 10,000, F = Supplemental Loan for Previously Approved Project, G = Planning and Design Loan

## Appendix A

Iowa DWSRF State Fiscal Year 2008 3Q

Estimated Funding Sources and Funding Uses

As of 8/31/07

### Funding Sources for Loans

Funds Available in Equity and Loan Accounts	\$32,234,999
Available Balance under Existing Capitalization Grants for loans	\$0
Funds Available Through Issuance of Bonds	\$11,065,034
Federal Fiscal Year (FFY) 2006 Capitalization Grant available for loans	\$8,100,000
State Match for FFY 2006 Capitalization Grant	\$2,050,400
Federal Fiscal Year (FFY) 2007 Capitalization Grant available for loans (est)	\$8,100,000
State Match for FFY 2007 Capitalization Grant	\$2,050,400
Equity Fund Interest Earnings during State Fiscal Year (SFY) 2008	\$116,568
Net Repayments on Equity Fund Loans during SFY 2008	\$2,375,311
Funds Released from Pledge of Indentures to Equity Fund (available for loans)	<u>\$3,892,816</u>
<i>Total Funding Sources for Loans</i>	\$69,985,528

### Funding Uses for Loans

Undisbursed Amounts Committed to Existing Loans	\$18,347,258
Project Requests (FONSI issued; 50% disbursement rate)	\$22,165,500
Project Requests (FONSI not issued; 25% disbursement rate*)	\$28,588,750
Planning & Design Requests (approved on previous IUP)	\$796,000
Planning & Design Requests (new request this IUP)	<u>\$88,000</u>
<i>Total Funding Uses for Loans</i>	\$69,985,508

\*Loan disbursement rates are estimated based on previous experience with project pace. For projects that currently have not had a Finding of No Significant Impact issued, it is expected that up to 25% of the total project amounts may be disbursed during SFY 2008 once a FONSI has been cleared, construction permit issued, and binding loan commitment signed. For those projects with FONSI clearance, the disbursement rate is estimated at 50% of the loan request amount

## **APPENDIX B**

### **PROCEDURES TO DETERMINE PROJECT PRIORITY LIST**

Project rankings were determined by the following procedures:

- Eligibility of applications were determined by needs criteria identified in IAC 567—44.7(8). In general, most water source, treatment and distribution system improvements are considered eligible.
- Project applications received during the FY 2008 application period were considered for funding in FY 2008; if not funded by the end of FY 2008, these projects will be moved to the FY 2009 project priority list.
- The priority ranking is a total score developed using the scoring criteria listed in IAC 567—44.7(8). Points may be gained in each of five categories: Water Quality and Human Health Risk-Related Criteria (60 point maximum), Infrastructure and Engineering-Related Improvement Criteria (35 point maximum), Affordability Criteria (10 point maximum), Special Category Improvements (15 point maximum), and IDNR Adjustment Factor for Population (10 points). The combined score provides a numerical measure to rank each project within its pool. A project with a larger number receives higher priority.
- The final project priority list for a fiscal year's project pool is compiled in the following manner: Subsequent segments of projects funded by DWSRF loan programs of previous years will retain their original score and be added to the list of the current year's applications.
- Loan-eligible projects submitted will be placed on the IUP each calendar quarter. If the project is anticipated to proceed during FY 2008, the project will be added to the project priority list and the list will be made available for public comment at the end of each calendar quarter in which one or more projects are added to the list.
- Projects on the project priority list will be added to the contingency project list if the total amount of needs exceeds the year's DWSRF staff resources capability and loan funding or if it is known that the project will be unable to be funded during FY 2008. Projects will be funded from the top down in the ranking order of the project priority list with consideration given to readiness to proceed. Projects are ranked similarly in the contingency project list. Projects in the contingency list can be moved to the funding list when funds are available or when the project is ready to proceed. Funds can be made available due to a number of reasons including project bypasses, loan application withdrawal of other projects, reduction in loan amount requests, or an increase in available funds.